

LEVERAGING VENTURE CAPITAL AND COMMERCIAL BUSINESS: ENHANCING STABILITY OPERATIONS

BY

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USAWC STRATEGY RESEARCH PROJECT

**LEVERAGING VENTURE CAPITAL AND COMMERCIAL BUSINESS:
ENHANCING STABILITY OPERATIONS**

by

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ABSTRACT

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Economic Stability Operations have emerged as a new element of United States national strategic power. The creation of jobs, through commercial business operations via venture capital and private investment, is integral to stability operations in current operational theaters. Successful execution of stability efforts requires detailed interagency coordination to ensure synchronization of strategic military, diplomatic, and political objectives. This paper considers strategic questions regarding venture capital and private investment as non-kinetic enablers in stability operations and will examine the key strategic factors influencing long-term economic stability following the withdrawal of combat forces. This paper provides a model for phased commercial operations and a method to best accomplish the tasks necessary to incite commercial industry entry into the uncertain post-conflict environment, thus preparing the host-nation for future economic sovereignty as a viable member of the global market.

LEVERAGING VENTURE CAPITAL AND COMMERCIAL BUSINESS: ENHANCING STABILITY OPERATIONS

The United States has a significant stake in enhancing the capacity to assist in stabilizing and reconstructing countries or regions, especially those at risk of, in, or in transition from conflict or civil strife, and to help them establish a sustainable path toward peaceful societies, democracies, and market economies.

— National Security Presidential Directive/NSPD-44
December 7, 2005

The United States Department of Defense (DOD) is now engaged in asymmetric conflicts in Iraq and Afghanistan where strategic decisions are often made at the lowest levels involving multiple players with disparate agendas. Unit commanders conduct kinetic and peacekeeping operations, while simultaneously involved in the nontraditional missions of nation building and economic stabilization. After almost a decade, “the United States’ experience with rebuilding economies in the aftermath of conflicts...has evidenced serious shortcomings.”¹ Current U.S. policy concerning economic stability establishes the Department of State (DOS) as the lead agency for economic stability operations. Together with the U.S. Agency for International Development (USAID) and select Other Government Agencies (OGAs), the Ambassador or Chief of Mission (CoM) of the respective U.S. Embassy is charged with developing policy for and resourcing of economic stability operations in their respective countries. Past experience demonstrates that the DOS lacks resources to execute this mission in the continuing environment of civil unrest and armed conflict. The DOS core competencies of diplomatic, political, and bureaucratic engagement are better suited to advisory roles in countries characterized by civil, political, and social stability.

The DOD currently has no formal office dedicated to policy formulation, resourcing, and execution of economic stability operations to support the Combatant Commander (CCDR). As such, stabilization operations are often ad hoc or poorly resourced by battle-space commanders, resulting in seemingly loosely coordinated efforts in both Iraq and Afghanistan. Historically, U.S. economic stabilization efforts followed the cessation of armed conflict. Examples include, the post World War II Marshall Plan and the rebuilding of Japan following its defeat in 1945. The U.S. conducted these operations primarily as humanitarian assistance efforts to stem the suffering of the conquered and occupied civil population by rebuilding critical infrastructure and restoring key basic services. In 2006, the Multi-National Corps Commander coined the term *SWET*, identifying sewer, water, electricity, and waste removal (trash) as those key basic services needing intense restoration efforts in Baghdad, Iraq. However, as the Coalition in Iraq eventually learned, restoration of basic services is but part of the entire effort to improve conditions for a society in political, civil, and economic turmoil. This paper reviews the issues mentioned above, and addresses three strategic questions regarding economic stability operations:

- How does the conduct of Economic Stability Operations (ESO) support the U.S. National Security Strategy (NSS)?
- What are the key aspects or elements of ESOs?
- How can the DOD incite the conditions for economic stability in an Area of Operations (AOR)?

National Security Strategy, Current Doctrine, and Economic Power

What is the importance to the military profession in understanding Economic Power? The answer can be derived from the following quote by President John F. Kennedy:

You [military professionals] must know something about strategy and tactics...but also economics and politics and diplomacy and history. You must know everything you can know about military power, and you must also understand the limits of military power. You must understand that few of the important problems of our time have...been finally solved by military power alone.²

Any discussion of U.S. strategic operations must begin with a review of current NSS and established doctrine. Fortunately, the U.S. has both strategy and doctrine that address the dimensions of economic stability with regard to counterinsurgency operations. Former President George W. Bush, in December of 2005, signed National Security Presidential Directive / NSPD-44, which in the midst of Operations ENDURING FREEDOM and IRAQI FREEDOM, established the U.S. policy for the interagency process to “promote the security of the U.S. through improved coordination, planning, and implementation for reconstruction and stabilization assistance for foreign states and regions at risk of, in, or in transition from conflict or civil strife.”³ NSPD-44 does not provide a definition for *reconstruction* or *stabilization*, nor does it specify the means by which U.S. personnel are to conduct reconstruction and stabilization operations in a particular area. NSPD-44 does, however, identify the lead agency. “The Secretary of State shall coordinate and lead integrated U.S. Government (USG) efforts, involving all U.S. Departments and Agencies with relevant capabilities, to prepare, plan for, and conduct stabilization and reconstruction activities.”⁴ Most importantly, and to ensure that political, diplomatic, and military efforts are synchronized to achieve those reconstruction and stabilization objectives of NSPD-44, “the Secretary of State shall

coordinate such efforts with the Secretary of Defense to ensure harmonization with any planned or ongoing U.S. military operations across the spectrum of conflict.”⁵ This distinction is important; and while it is clearly prescribed in NSS, the practical application is at best problematic in the current areas of operations. Additionally, “policy pronouncements from the Bush administration include DOD Directive 3000.05 *Military Support for Stability, Security, Transition, and Reconstruction (SSTR) Operations*.”⁶

The U.S. Army has established doctrine concerning economic stabilization efforts, codified in Army Field Manual (FM) 3-07 *Stability Operations*. FM 3-07 states “Following conflict...economies tend toward a precarious state [and] often suffer from serious structural problems [but]...also possess significant growth potential.”⁷ FM 3-07 notes that the goal of economic stability efforts is not to enable immediate economic growth, but to “build on those aspects of the economic sector that enable the economy to become self-sustaining.”⁸ Guidance for *Supporting Economic Generation and Enterprise Creation* is also established in FM 3-07. “Economic recovery begins with an actively engaged labor force [and] when a military force occupies an operational area, the demand for local goods, services, and labor creates employment opportunities for the local populace.”⁹ However, caution at this point is prudent because a military occupation does not automatically result in employment opportunities for the indigenous population. Experience in Iraq demonstrates that economic growth does not immediately follow the military occupation or cessation of hostilities. To the contrary, damage to the civil infrastructure, latent civil unrest, and spurious insurgent activity may invariably stall or stop business activities within the affected local area.

Army Stability Operations doctrine also addresses the criticality of supporting private sector development and the potential opportunities for business. FM 3-07 states, “developing the private sector typically begins with employing large portions of the labor force...[infusing] much needed cash into local markets, and [initiating] additional public investment and development.”¹⁰ While this seemingly prescriptive approach appears within the capabilities of USG agencies in the AOR, the reality is that the transition to stability and economic growth is difficult and USG agencies often lack the expertise and funding necessary to incite real economic growth. The Army’s own Peace Keeping and Stability Operations Institute (PKSOI) accurately characterizes the post-conflict economic challenges, asserting, “Common features of a war-torn economy include macroeconomic instability, fragmented markets, limited access to credit, reduced confidence, depleted human capital, increased illicit economic activity, mine-littered lands, and debilitated economic institutions that are vulnerable to capture by predatory economic actors.”¹¹ Later in this paper, models are presented which are useful in determining the necessary steps to fulfill doctrinal mandates. The focus is catalyzing economic development through venture capital and commercial business operations. While the Army addresses Stability Operations (FM 3-07) and Counterinsurgency (FM 3-24) as mostly separate doctrinal issues, experience in Iraq and Afghanistan over the last decade demonstrates that Stability Operations and Counterinsurgency Operations (COIN) are closely interrelated, with the labor force as a common denominator. From a COIN perspective, one goal is to minimize the pool of potential insurgents with Stability Operations focusing on that same labor pool as a key factor in driving growth in the host-nation economy. Consequently, COIN-centric operations that provide stabilizing

influences on the population invariably support efforts to enable stability and economic growth throughout an AOR. In referencing COIN within this paper, the intent is to demonstrate the relationship and linkages with economic stability.

In conducting COIN operations, current policy addresses the need for detailed analysis of a country's civil logistics and economic assets. "These assets can potentially support insurgents as well as the development and sustainment of host-nation (HN) security forces and the restoration of other essential services. Some examples of essential information for COIN logistic planning include HN economic base (such as industry, manufacturing, and agriculture)."¹² Identifying those key elements of the economic base is a critical first step to establishing the strategy necessary to leverage future opportunities for private investment or commercial business. As with any expeditionary warfare operation, kinetic actions may occur simultaneously with economic stability efforts. U.S. doctrine states, "success requires balancing the measured use of force with an emphasis on nonmilitary programs."¹³ However, the DOD is not resourced to unilaterally address the full spectrum of such operations; close coordination with interagency and international partners is key. "Political, social, and economic programs are most commonly and appropriately associated with civilian organizations and expertise; however, effective implementation of these programs is more important than who performs the tasks."¹⁴ Counterinsurgency doctrine further notes that military forces may be required to fill the gap to provide commercial or political, or social (service) expertise, if qualified civilian partners are unavailable. FM 3-24 states, that "COIN is (a) battle of ideas," and offers the following explanation:

COIN programs for political, social, and economic well-being are essential to developing the local capacity that commands popular support when

accurately perceived. Insurgents seek to further their cause by creating misperceptions of COIN efforts. Comprehensive information programs are necessary to amplify the messages of positive deeds and to counter insurgent propaganda.¹⁵

Counterinsurgency doctrine acknowledges the importance of economic development (operations) by including economic development as part of the iterative counterinsurgency campaign design model.

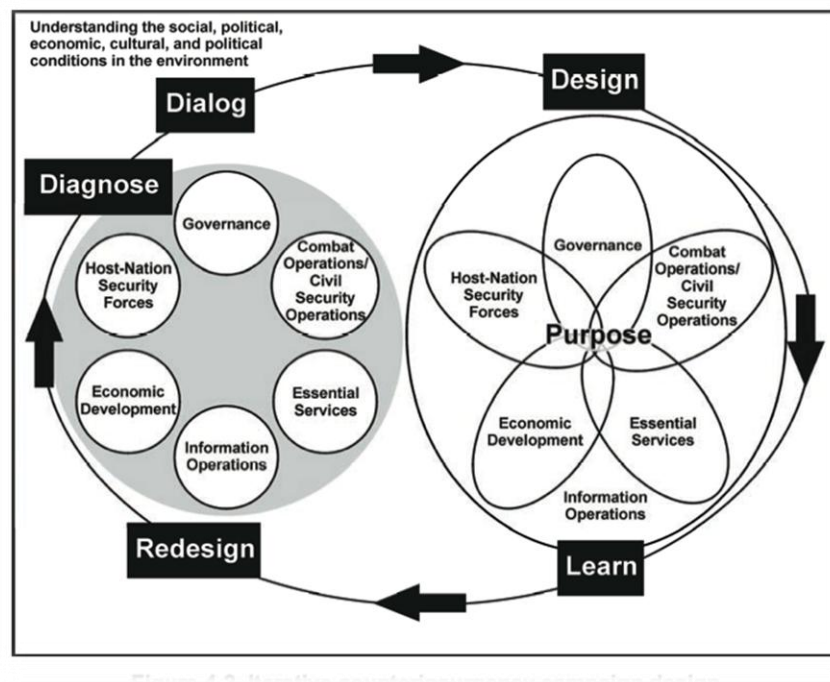


Figure 1. Iterative Counterinsurgency Campaign Design Model¹⁶

The Military's Historic Involvement in Economic Development

Economic development and stability operations are not solely the phenomena of recent conflicts such as Operations IRAQ FREEDOM or ENDURING FREEDOM.

“Although they have not generally viewed them as central to their mission, the armed forces, particularly the Army, have long [conducted] activities that fall within the ambit of development.”¹⁷ Critical to the early formation of this great nation, “the Army itself was established and funded in large part to assist in the nation’s economic development,

particularly along the country's western frontier as it advanced toward the Pacific. [In the] 19th century, the Army took the lead in accomplishing such nation-building tasks as exploration, road construction...and improving river transportation."¹⁸ Western expansion of the territorial boundaries of the U.S. was enabled by "Army posts (which) fostered settlement by providing security."¹⁹ As the U.S. increased its regional and global influence, "American officers in control of Havana, Manila, and other cities occupied by the Army engaged in efforts to promote public health, judicial reform, tax equalization, honest government, and public education...[reflecting] the progressive and reformist American character."²⁰ Unlike the traditional colonial powers: France, Spain, or the United Kingdom; U.S. military engagements and influence overseas "fostered efforts to improve conditions in countries where the military operated and, when the U.S. was the occupying power, often did so beyond minimalist legal and moral requirements."²¹ The U.S. armed forces have long established a "pattern of military involvement in development activities, such as providing improved infrastructure, governance, and education...during and after numerous conflicts including World War II, Korea, Vietnam, and those in Central America."²²

Notwithstanding current involvement in the Middle East, World War II perhaps provides the best historical example of the U.S. commitment to economic recovery at the national-level. In both Germany and Japan, U.S. postwar occupation efforts "went far beyond those required by international law, reflecting a fundamental desire to remake those societies more in our image."²³ On April 3, 1948, the U.S. Congress passed into law the Economic Assistance Act of 1948 "which established the Economic Recovery Program, the *Marshall Plan*, (where during) the 4 years of formal operation,

Congress appropriated \$13.3B for European recovery.”²⁴ Although the Marshall plan focused on the reconstruction of postwar Europe “the initiative (itself) contained many of the elements that later became common in most U.S. assistance programs, including a focus on economic development.”²⁵ Despite an obvious history of deep engagement in economic stability operations, “political and military leaders invariably continue to view these tasks as exceptions to the rule that the military does not do *nation-building*.”²⁶ Perhaps this previous doctrinal aversion is the reason that “...the military typically addressed (such) post-conflict challenges in an improvised, ad hoc manner.”²⁷ And, while agencies other than the DOD are charged by Presidential directive for the responsibility of *nation building*, “virtually every (recent) contingency operation beginning with Operation URGENT FURY in Grenada confronted the military with the need to address post-conflict economic, governance, rule of law, and other development challenges.”²⁸

The Strategic Importance of Economic Development

“The biggest challenges the U.S. and the international community face in this century are those posed by the failure of much of the world to achieve a level of stability that is typically an outcome of development.”²⁹ While this implies that USG efforts to establish conditions for economic development in a destabilized or failed nation will result in eventual stability, the process is often lengthy and ill-defined. There is no *magic bullet* that DOD can employ to ensure stability in any area of operations, as the factors that lead to instability vary from religious strife and territorial disputes to political oppression and human suffering. However, recent experience during Operation IRAQI FREEDOM demonstrated that USG economic stability efforts do result in a marked

improvement in post-conflict reconstruction operations. U.S. NSS establishes “global economic and social development not merely as a worthy goal, but as a national objective. Helping the world’s poor is a strategic priority and a moral imperative. Economic development, responsible governance, and individual liberty are intimately connected.”³⁰

DOD’s Quadrennial Defense Review (QDR) echoes national strategy by arguing that “by alleviating suffering and dealing with crises in their early stages, U.S. forces help prevent disorder from spiraling into wider conflict or crises.”³¹ And, while such activities demonstrate goodwill and compassion, the rhetoric is backed by tangible commitments. As noted by former U.S. Agency for International Development (USAID) Administrator Randall Tobias, the U.S. has historically devoted considerable national treasure to this policy objective: “the U.S. FY2008 DOS and USAID foreign assistance request (was) \$20.3B...reflecting the importance that the (Bush) Administration placed on foreign assistance, not just as a moral obligation to alleviate suffering, but as a foundation of our NSS.”³² Finally, although economic stability in post-conflict and fragile states is firmly rooted in national strategy, what provides DOD the charter to actively conduct such activities, sometimes unilaterally, in support of stability operations? The answer perhaps stems from practical necessity rather than doctrinal underpinning. Military forces conducting such non-kinetic operations are often referred to as the *Peace Corps with Guns*. While this paradoxical portrayal is justified, if not overly-simplified, it does little to accurately depict the military’s role as only one of many key players in economic stability operations. “Increased military involvement in support of this strategic objective as part of a *whole of government approach* would not only further the interest

of all parties, including – and particularly – the military itself, but would enhance the capacity to handle the more difficult challenges of post-conflict reconstruction.”³³ History provides a convincing argument for leveraging all available means of U.S. national power. General Albert Wedemeyer, author of the World War II Victory Plan, argued that “our failure to use political, economic, and psychological means in coordination with military operations during the war prolonged its duration and caused the loss of many more American lives.”³⁴

Defining the Environmental Threat

Joint doctrine provides a broad definition of the *operational environment* as a “composite of the conditions, circumstances, and influences that affect the employment of capabilities and bear on the decisions of the commander.”³⁵ While this doctrinal classification is necessarily ambiguous, the implication of an ever-changing and unpredictable set of circumstances will remain prevalent during intentional stability operations. COIN doctrine states that there are four major forms of power in a society: coercive force, social capital, authority, and economic resources.³⁶ Doctrine dictates that, once an insurgent group is identified, military forces “should identify the type of power the group has, what it uses the power for (such as amassing resources and protecting followers), and how it acquires and maintains power.”³⁷ Identification of the direct causes, contributing factors, and influencing agents is a critical first step in counterinsurgency and stability operations. “Economic disparities between groups contribute to political instability. Insurgent leadership or traditional authority figures often use real or perceived injustices to drive an insurgency. Perceived injustices may include economic disenfranchisement and exploitative economic arrangements.”³⁸ In a societal environment characterized by economic depression and high unemployment, influence

by insurgent forces can become a matter of economic survival for an impoverished citizenry. The phenomenon of the unemployed military-age male was identified by Multi-National Corps – Iraq (MNC-I) leadership in the summer of 2006 as a major contributing factor to the growing insurgent recruitment. This particular segment of the population (ranging in age from 16 – 35 years of age) in Baghdad, constituted a significant potential resource pool for insurgents. Literate but with limited formal education, unemployed, and often responsible as the sole contributor to support core and extended family needs, young males were often compelled to participate in illicit and insurgent activities as a means to earn money. If this phenomenon is analyzed from the perspective of basic human need (figure 2), as suggested in 1934 by A.H. Maslow, the motivation to participate in armed insurgency as a wage-earning means begins to become apparent. Human behavior based on these (basic) needs, subject to the environmental dimensions of high unemployment and strong ideological influence, can manifest motivations and actions unrealized in a society characterized by opportunity, employment, and economic stability.

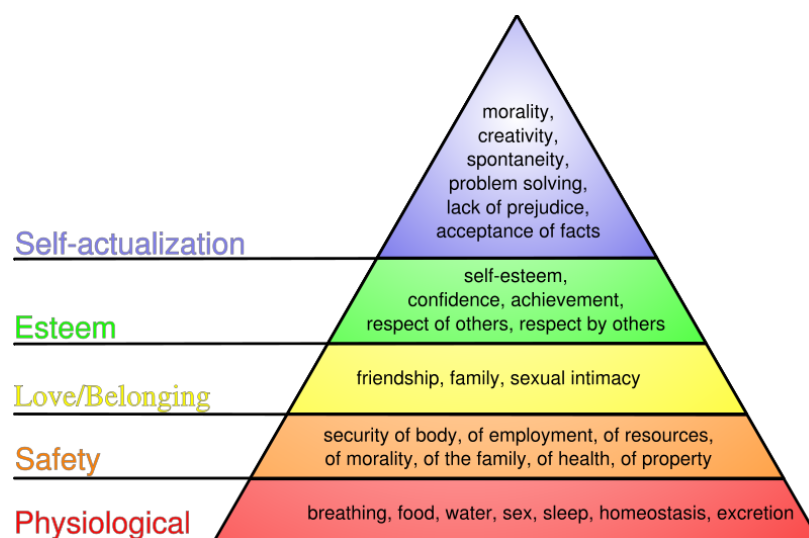


Figure 2. Maslow's Hierarchy of Needs³⁹

The holistic approach to stability operations includes a focus on job creation and the underlying economy. “The integration of civilian and military efforts is crucial to successful COIN operations. All efforts focus on supporting the local populace and Host Nation (HN) government. Political, social, and economic programs are usually more valuable than conventional military operations in addressing the root causes of conflict and undermining an insurgency.”⁴⁰

In Iraq, decisions made soon after the 2003 establishment of the Coalition Provisional Authority (CPA) would have profound and enduring adverse impacts on stability operations through the present. According to the Central Intelligence Agency (CIA) Factbook on Iraq, the pre-conflict population was approximately 25 million people. The CPA’s decision to disband the Iraqi military plunged the region’s second largest military force into abject poverty. Furthermore, with the CPA’s decision to “de-Bathify” the country, declaring an end to the ruling political party and setting terms that prevented previous Bath Party members from future employment opportunities, the institutional bureaucracy of the former regional hegemonic state became part of an impoverished underclass. The CPA’s well-intentioned decisions to disarm and decapitate the Saddam regime increased nation-wide unemployment dramatically by the end of 2004.

Stakeholders and Financial Resources

An important term in the discussion of economic stability is *stakeholder*, defined as a “person, group, or organization that has direct or indirect (interest)...because it can affect or be affected by actions, objectives, and policies.” Stake-holding is “usually self-legitimizing...(but) all stakeholders are not equal and different stakeholders are entitled to different considerations.”⁴¹ The primary beneficiary of economic stability operations is

the citizenry of the HN. As a stakeholder in the future economy of a country, its citizens realize the growth and development enabled by economic stability efforts. Tribal or religious leadership, HN government, and international or regional business professionals also have a stake in the economic end-state and the stability that invites national economic growth. For the purposes of this paper, two additional stakeholder groups hold considerably important roles in the domain of economic stability operations: the U.S. DOS, with the U.S. Agency for International Development (USAID) and country Provincial Reconstruction Teams (PRTs); and DOD, including the Combatant Command.

The type and amount of financial resources also vary greatly. Depending on the source and fiscal limitations, USG funding is often limited to a specific project or objective. Direct aid, grants, Commander's Emergency Response Program funding (CERP), non-government organization (NGO) funds, and international donor monies often do not provide flexibility for investment in necessary infrastructure or HN priority projects. Although important to the overall economic development strategy for the failed state, such funding often falls short of a nation's desires for deliberate investment and growth. Private investment capital and commercial business can provide the essential and substantial investment necessary for long-term economic stabilization in a troubled region or country. The remainder of this paper provides a proposed solution to improve DOD's institutional capability to enable private investment and commercial business as key and essential elements of stability operations.

The DOD Team: Under Secretary of Defense for Economic Stability Operations

This paper suggests refinement of current DOD doctrine, the creation of a DOD agency for Economic Stability Policy, and a model to execute critical activities to

catalyze private sector development in an AOR. Currently, there exists an ad hoc group within the DOD that conducts economic stability operations in Iraq and Afghanistan. The Secretary of Defense Task Force for Business and Stability Operations (TFBSO), a team of comprised mainly of industry experts, allows the U.S. Central Command (USCENTCOM) to realize unprecedented success in Iraq by enabling private investment and commercial businesses in Iraq. Although the TFBSO has provided CENTCOM with a well-qualified team and unique capabilities to influence economic stability in Iraq, it has done so largely without institutional depth, sufficient resources, and doctrinal credibility. The effort is overwhelmingly dependent on the political environment of Washington, DC and subject to competing priorities of the DOD.

To better support the economic stability efforts of the Combatant Command, the DOD should establish an Under Secretary-level Office of Economic Stability Operations USD(ESO). The USD(ESO) should be directed by a member of the Senior Executive Service (SES) reporting directly to the Secretary of Defense. The USD(ESO) would be responsible to develop national strategy pertaining to DOD's economic stability operations. The USD(ESO) would work with the Combatant Commander, Operational Commanders, and Chief of Mission to develop coordinated efforts in a particular country, AOR, or battle-space to enable private investment and commercial business in the post-conflict environment. The Department of Defense should resource the USD(ESO) with a broad talent pool of DOD civilian and senior military employees with knowledge, skills, and abilities in program management, financial resource management, and strategic planning. The USD(ESO) would hire industry experts in the marketing, accounting, non-technical manufacturing, heavy industry, agriculture,

banking, and telecommunications sectors. The measures of success for USD(ESO) activities in a given operational theater could be defined as two key metrics:

- Volume of commercial business or private investment, along with the number of jobs created for *host-nation* persons, in the post-conflict environment.
- Coordination conducted between the HN government, Chief of Mission, and Combatant Command to meet U.S. strategic goals.

While the establishment of the USD(ESO) will require additional resources, or reapportionment of finite resources across the DOD, the effective end-state will justify such investments. The feasibility of adequately resourcing the USD(ESO) is dependent on stated national strategy in a specific region. However, as the USD(ESO) will serve as a key non-kinetic enabler that provides critical coordination, thus enhancing the interagency process, the benefits would be widely recognized by all parties and the suitability of this new DOD Office will be recognized as critical in NSS implementation.

Economic Development Hierarchy

Maslow's Hierarchy of Human depicts the foundation (bottom of the pyramid) elements representing basic physiological needs; the top of the pyramid represents advanced needs Maslow identified as *self-actualization*. A country's economic development may be viewed from the same lens of basic needs to advanced development. Figure 3 presents a hierarchal model for understanding the economic needs structure of a developing country. Experience in Iraq and Afghanistan demonstrated that there are several fundamental elements that are required to codify economic stability: Resources (supply), Rule of Law, Opportunity (Demand), Population or Workforce, Security, Infrastructure (electricity, water, transportation,

communications), and Finance. Of these seven elements, three are *threshold requirements* from the perspective of the venture capitalist or private investor intending to conduct business in an Area of Operations: Rule of Law, Opportunity (Demand), and Infrastructure. Generally, each threshold requirement must be present in some form prior to the start of any business venture. Commercial entities would most likely not be able to influence the establishment of the Rule of Law, provide required capital to build the necessary infrastructure, or create the initial demand that would drive future profit-centric operations. These three requirements are depicted intentionally as the basic building blocks of the model, indicating their importance to economic development.

For the purpose of this model, Rule of Law is defined as the legal framework that enables investment and commercial activity, property ownership, and fair trade. Since private investment and commercial business activities invariably require substantial capital commitments, a legal framework is necessary to ensure that private property is not seized by the HN government, or capital assets nationalized due to transition of governing authorities. Emphasizing the importance of the Rule of Law, Steve Forbes, in a graduation address to Thunderbird graduate school said, “politics can crush a global manager who lives in a society that does not provide individual equality before the law.” Forbes added that, “in the U.S., the biggest source of capital used to launch new business is the equity that comes from private property...without property rights, it is very hard to advance.”⁴² USAID echoes this by writing, “The risks confronting business in post-conflict societies tend to take two primary forms 1) uncertainty over the *rules of the game* (laws and regulations) and 2) an inability to enforce rules that are certain (weak institutions).”⁴³

FM 3-07 identifies those aspects which are critical to the HN self-sustaining economy: “physical infrastructure, sound fiscal and economic policy, predictable regulatory environment, a viable workforce, business development and access to capital, and effective management of natural resources.”⁴⁴ The World Bank characterizes the quality of a country’s *investment climate* as being “determined by the risks and transaction costs of investing in and operating a business, which in turn are determined by the legal and regulatory framework, barriers to entry and exit, and conditions in markets for labor, finance, information, infrastructure services, and other productive inputs.”⁴⁵ This characterization further underscores the importance of the model’s seven basic elements necessary for economic growth. Private Investment and Commercial Business are the *Catalyst Activities* that enable increases in national revenue and growth in the Gross Domestic Product (GDP). *Economic Sovereignty*, the top level of the model, is the final step of economic maturity. The categorization of a nation having sovereignty over its economy implies openness to external investment, sound footing in the global economy, and the ability to mitigate or reduce national debt. The key characteristic is a sustainable economy “in which people can pursue opportunities for livelihoods within a predictable system of economic governance bound by law.”⁴⁶

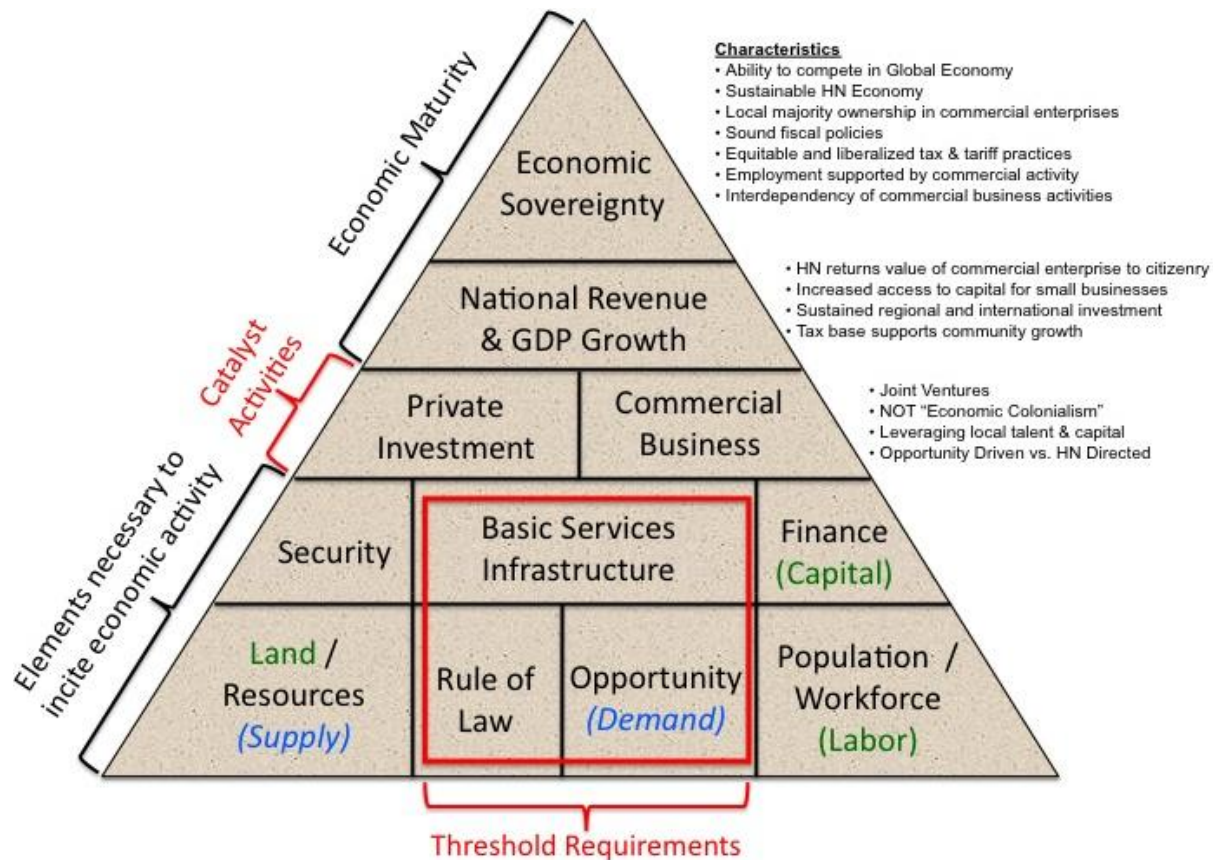


Figure 3. Economic Development Hierarchy

ESO Operating Model, Conduct of Economic Stability Operations

In June 2006, the OSD Task Force for Business and Stability Operations (TFBSO) began efforts to enable economic stability in Iraq. The Task Force (TF) then consisted of a handful of civilian industry experts including the TF director, a political appointee concurrently slated as the Director of the DOD Business Transformation Agency (BTA). The stated purpose of the team's first encounter in Iraq was to review Coalition contracting procedures, determine methods to improve established processes, and recommend steps necessary to streamline DOD's contracting operations to better support Operation IRAQI FREEDOM. Several meetings with senior MNC-I leadership provided TF members with the guidance necessary to determine a priority of work. One particular meeting, with the MNC-I Commander, later proved to be the seminal event,

resulting in a significant change in mission that launched the TF into an effort that would span the next four years.

The MNC-I Commander recognized that job creation, as a critical element of economic growth would lead to stability, given the right conditions. With the MNC-I Commander's intent understood, the TF set out to develop the strategy for job creation in Iraq. Without a strong doctrinal foundation, the TF resorted to accepted commercial business practices for the establishment of operations in an austere or *green-field* environment. Since there was no model that the team could use to plan, resource, and implement their efforts; all efforts were ad hoc at best with minimal documentation, while the TF embarked on a *learn-as-you-go* campaign to encourage private investment and outside commercial interest in Iraq. The following phased model is the author's recollection of activities, with recommended priorities and actions. This proposed model provides a framework for future similar economic stability efforts.

Phase I: Discovery and Assessment. The TF entry into the AOR is at the request of the Combatant Commander (CCDR). Although a department-level agency, the TF must adhere to the internal command relationships and primacy of the CCDR. The CCDR's strategic end-state for the region or operations must be well understood by the TF in order to gain the command's support for the approval of priority of effort, utilization of assets, and sponsorship. While coordination with the diplomatic country team of the respective U.S. Embassy provides additional information resources, the priority of effort remains with the CCDR. Coordination between the CCDR and the Chief of Mission (COM) is crucial to synchronize military, political, and diplomatic strategy, the TF

leadership's contact with the country team is minimal, and only with the expressed approval of the CCCR or JFC.

During this phase, the intent for the additional DOD presence in the AOR is to provide recommendations for job creation or economic sector development to the CCCR, based on the CCCR's priorities, location, and desired strategic effect. The TF identifies business opportunities, viable facilities, potential work force, and level of effort and resources necessary to initiate commercial activity. In Iraq, the TF sought to survey those State Owned Enterprise (SOE) factories that had served as the basis for the Iraqi economy and military infrastructure. During the decade-long period of international sanctions, Iraq developed a degree of economic independence by manufacturing goods for government and civil consumption. SOE factories, often located near required natural resources, produced porcelain, cement, pharmaceuticals, steel, and heavy industrial goods. Domestic agriculture, controlled by the state, was the primary means of subsistence for the Iraqi populace.

Information concerning more than 35 SOE factories was available, which the TF leveraged to identify candidates for *restart*. SOE factories employed the local population, and in most cases, tribal leaders had ensured that the factory remained intact following the fall of the Saddam regime. The civil infrastructure was in disrepair due to decades of neglect. Absent across the great majority of the country were the basic levels of services expected: water, sanitation, and most important - electrical power. cursory assessments were conducted, in cooperation with local battle space commanders, to determine what the reasonable level of effort would be to employ the local population in the previous state-owned factory. During this initial phase, the DOD

TF's location and efforts were covertly managed. The intent was to remain discreet during this initial six month period, thus mitigating any potential political or diplomatic back-lash, either from within the USG or from partners in the coalition.

Phase II: Opportunity Identification and Foundational Work. This phase varies in duration from 90 to 120 days and is characterized by an increase in the number of TF members in the AOR, frequency of coordination sessions with CCDR and JFC leadership, and development of relationships with HN government entities. The priority of effort in this phase is to refine initial business opportunity assessments by leveraging industry expertise. Consultants are hired to conduct extensive analysis of previously identified sector opportunities, initiate coordination with select HN ministry leadership (agriculture, industry, minerals, communications, trade, finance, etc.), and develop the initial business models for sector growth. The CCDR and JFC continue to determine the priority of effort in theater. Battle-space commanders receive initial assessment reports on viability of restarting SOE factories; with respective resource decisions made for application of USG funding needed to enable initial factory activity. Critical tasks in this phase include support arrangements to provide theater travel, transient life support, and the initial full-time TF presence to facilitate follow-on planning and sustainment activities. The TF develops the operational budget, dependent upon CCDR and JFC priorities. Finally, the TF will procure suitable facilities and assets to enable the initial activities outline in the Investor Life-Cycle Model, presented later in this paper.

Identification of potential business opportunities is critical to all future success of the DOD TF, and will drive efforts of the TF when convincing the HN governing authorities to permit external investment and commercial activities. One such example

in Iraq concerns the national telecommunications infrastructure. During the spring of 2008, the Iraqi government was at a decision point to determine the future strategy to grow the national telecommunications infrastructure. Competing strategies included 1) commercially installed terrestrial fiber optics with eventual profit sharing, or 2) leased commercial satellite. While Coalition planners obviously understood the necessity to rely on the faster and cheaper fiber option, Iraqi government remained unconvinced. The solution was to convince the HN that Iraq enjoyed geographic uniqueness as a potential telecommunications hub for Asia, Europe, and the Americas; and that Iraq could generate vast annual revenue by allowing telecommunications to cross its national boundaries. The concept of fiber optics as a national telecommunications “River of Gold” was a convincing argument; the Coalition’s plan was subsequently approved in 2006.

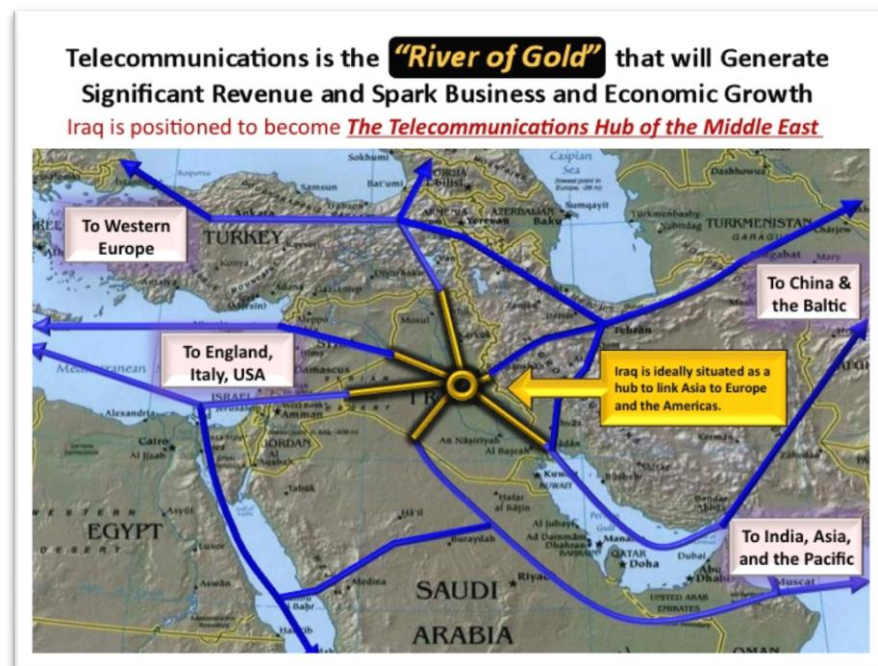


Figure 4. Iraq's *River of Gold*

Phase III: Leveraging Current Capacity and Facilities. The main effort during this phase focuses on enabling venture capitalists and commercial business persons to travel to the area of operations, meet with senior CCDR and JFC leaders, visit suggested opportunity locations, and visit with HN ministry representatives, tribal elders, and HN business professionals. The activities of the TF are largely centered on the travel, life support, and engagement coordination of invited businesspersons. Civilian visitors are treated as Distinguished Visitors (DVs), and have the opportunity to visit and engage with pre-determined HN persons. While this phase is notionally referred to as *Combat Tourism*, the intent of this phase is twofold: 1) demonstrate that the environment is at a level of security and 2) stability that will allow such visits and provide the opportunity for corporate leadership to determine the potential business opportunities. Since security, life support, and travel of DVs is resource intense, the TF limits the number of travel invitations extended to specific sector professionals based on intended strategic effects.

The activities enabling theater visits may continue indefinitely, as the number, frequency, and focus of visits is determined by CCDR and JFC priorities, available resources, and the level of stability in a given geographic area. Although the investment to enable the activities in this phase is substantial, experience in Iraq has demonstrated that a single visit to the war zone by one business professional often results in positive messaging to fellow business persons. Word of mouth advertizing and networking in the professional business community provided invaluable leads, supporting TF efforts to generate interest in Iraq's burgeoning economy in 2007.

Phase IV: Venture Capital and Private Investment. The fourth phase in this operating model is characterized by establishing the conditions for the initial presence of commercial entities in the respective area of operation. It is in this phase that the commercial entity makes a commitment to conduct business operations and maintain a full-time presence. The TF supports the initial presence by establishing a Business Incubator Facility that provides for all basic life support and static operating requirements. While the business representatives do not coordinate with the TF in the implementation of a business plan, the TF is responsible as the sponsoring agent in the area of operations. The TF seeks to host multiple concurrent commercial business entities in its incubator facility. Candidates were identified based on opportunity and sector maturity.

Coordination and relationship development with HN political and business leadership is critical to incubator residents. The TF may facilitate engagements as necessary, but does not determine the intent or scope of those engagements. During this phase, incubator residents procure real estate and other goods necessary to shift to independent business operations. Throughout this phase, the TF ensures open and continuous coordination with the HN national investment authority and ministerial-level leaders. The expected length of residency in the incubator facility is six months, which requires the TF to closely monitor progress by the resident to ensure reasonable progress is achieved to facilitate departure from the facility and initiation of independent commercial operations.

Phase V: Sustaining Management. The final phase of the TF operating model focuses on sustaining activities for continuation of the Incubator Facility, support to the

national investment authority and eventual transition of all activities to the appropriate HN agency. In the case of Iraq, the TF transitioned ownership and management of the Business Incubator Facility to the Iraq National Investment Commission (INIC). The TF and INIC enjoy a long-standing relationship, which easily facilitated the transition of facilities and contracts. The intent of this phase is to enable the HN to develop internal capacity to incite private investment and commercial business, without further USG assistance or resources. Throughout this phase, as with the previous phase, the TF has dedicated significant resources to provide the INIC expert consultants and accountants. The CCDR continues to provide strategic direction to the TF in this phase, as organic USG resources are reapportioned or eliminated from the AO. The end-state for this phase is dependent on successful growth of the HN economy, the rule of law, civil infrastructure, and willingness of HN politicians to assume leadership roles in driving the nation to economic sovereignty.

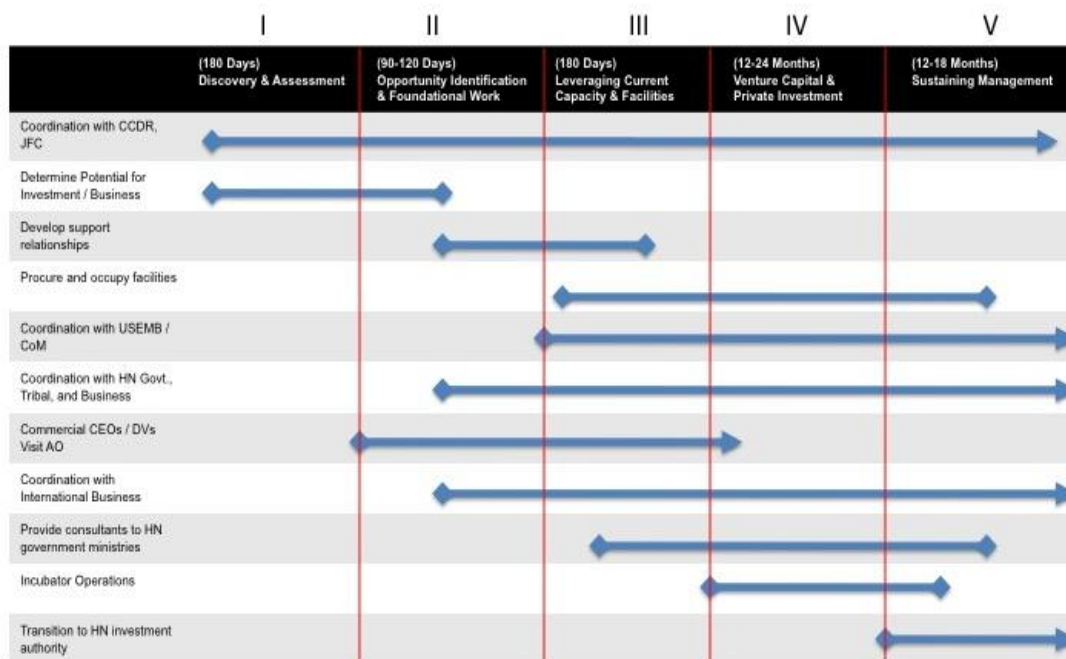


Figure 5. ESO Operating Model

Interagency Coordination and Spheres of Influence

“Interagency coordination is important even intense combat operations....”⁴⁷ As noted above, the proposed USD(ESO) will provide the CCDR a set of core competencies that are unique to the new organization. However, it is through coordination with the HN government, commercial enterprise professionals, and other USG agencies that the value of the new office becomes readily apparent. The DOD, is a results-driven organization with established planning processes. In May of 1997, the Clinton administration promulgated Presidential Decision Directive-56. The stated purpose of PPD-56 was to “establish a specific planning process for managing complex contingency operations and identify implementation mechanisms to be incorporated into the interagency process with the ultimate goal of achieving unity of effort among USG agencies and international organizations.”⁴⁸ The genesis of the directive stemmed from U.S. experiences during the 1993 military operation in Somalia. The principal author of PPD-56, Under Secretary of Defense for Policy Michelle Flournoy, noted that “one of the most powerful lessons learned...in Somalia was that the absence of rigorous and sustained interagency planning and coordination can hamper effectiveness, jeopardize success, and court disaster.”⁴⁹

While PPD-56 was DOD’s attempt to “impose a version of the military planning process on the interagency,”⁵⁰ such a regimented approach is not appropriate when attempting to incite private citizens to risk substantial capital resources by undertaking commercial business activities in a foreign land in less than stable conditions. With a goal to persuade venture capitalists and business professionals to embark on commercial activities, rapport must be established and relationships nurtured. To this end, and with the intent of maintaining viable lines of simultaneous communication with

multiple stakeholders, the TFBSO leaders in Iraq and Afghanistan adopted a methodology of *Spheres of Influence*. Figure 6 portrays those lines of communication. Seemingly horizontal in the depiction of coordination among the disparate entities, a fine balance was necessary to ensure information needs of the USG were met, while protecting U.S. interests when sharing information with both HN entities and members of the professional and commercial sectors. While this communications paradigm lacks doctrinal underpinning and may appear chaotic, when viewed from the lens of the responsible DOD agency, the graphic depicts the complexity of relationships necessary to affect commercial business activities and private investment in the expeditionary environments of Iraq and Afghanistan.

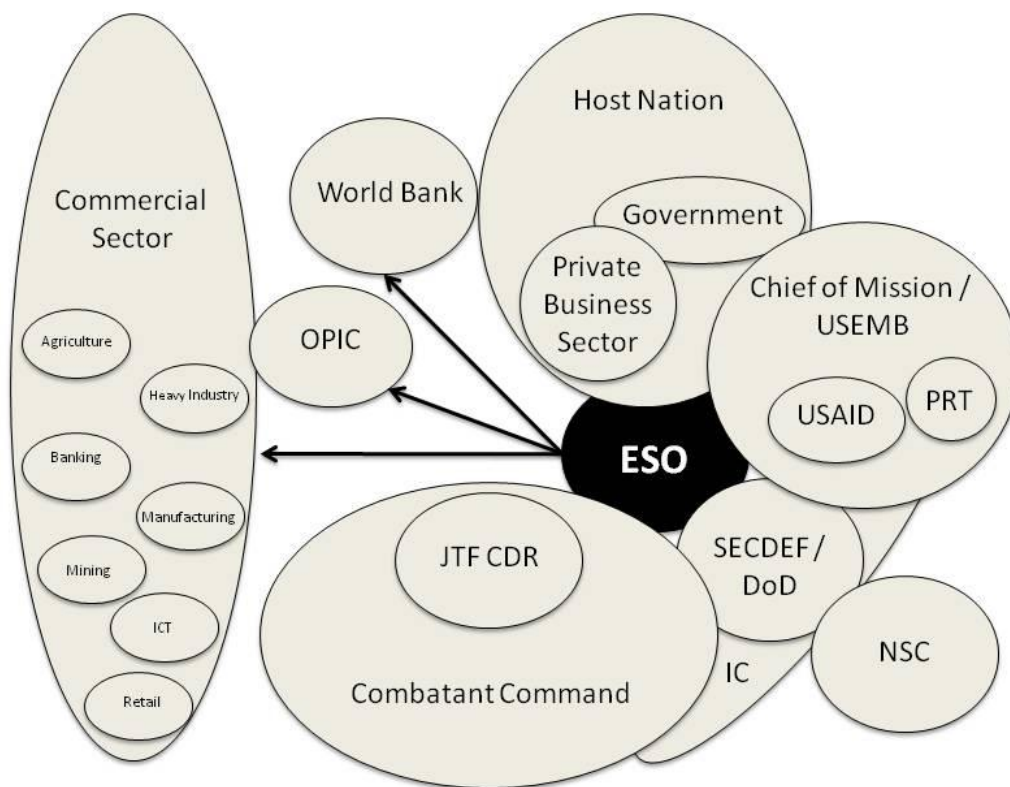


Figure 6. DOD ESO Spheres of Influence

Proposed Investor Life-Cycle Model

Initiating actions to enable investor presence and commercial activity in the HN begins in Phase III of the ESO Operating Model. The purpose of the diagram in Figure 7 is to provide a visual representation of the steps contained within a process for maturing investor's and commercial operator's presence in the HN. This conceptual framework codifies the sequence that the current DOD TF implemented successfully in Iraq. The methodology will be leveraged in Afghanistan, assuming the same level of JFC support and discovered business opportunities.

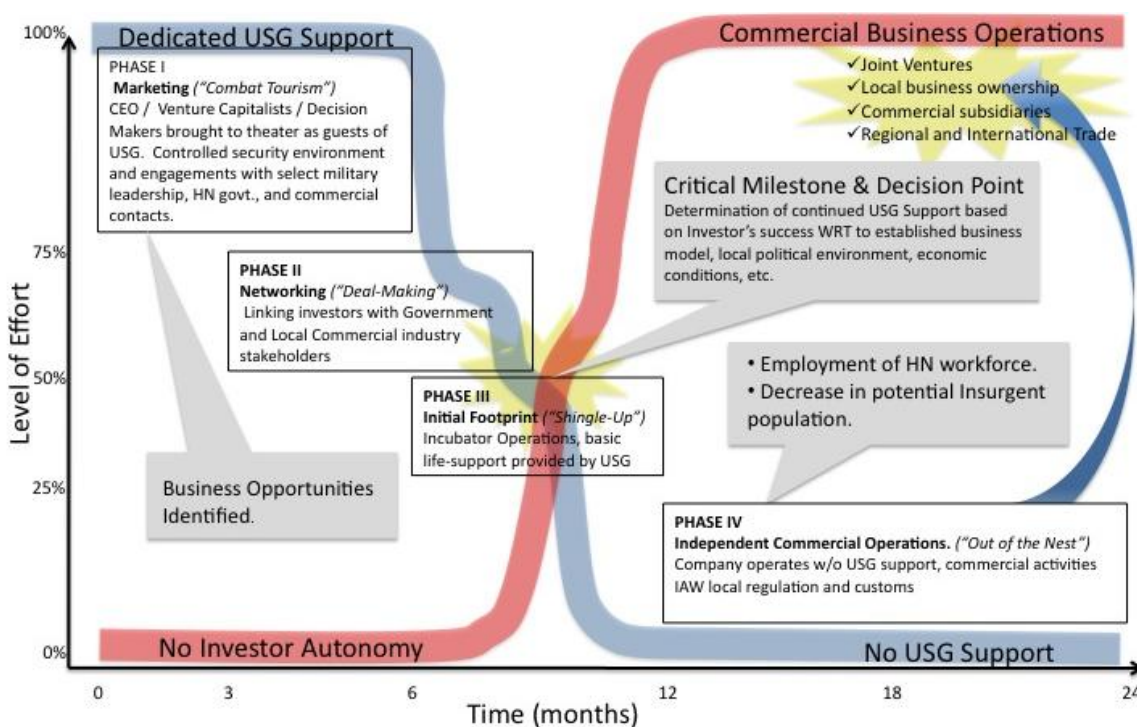


Figure 7. Proposed Investor Life-Cycle Model

Conclusion

"The U.S. has a significant stake in enhancing the capacity to assist in stabilizing and reconstructing countries or regions, especially those at risk of, in, or in transition from conflict or civil strife, and to help them establish a sustainable path toward peaceful societies, democracies, and market economies."⁵¹ Economic Stability Operations are

now, and will continue to be, critical to the U.S. Full Spectrum doctrine for the foreseeable future. To better support the efforts of the Combatant Commander, the DOD should codify policy, adjust the doctrinal approach, adopt practices and recommendations outlined in this paper, and change strategic processes with regards to stability operations. The DOD should increase efforts to synchronize kinetic operations with concurrent stability activities in a given theater of operations. Finally, the Department should establish mechanisms to engage commercial industry and enable private investment in the operational theater as a means to enable economic stability to support counterinsurgency and peacekeeping operations. The objective end-state includes improved coordination and collaboration between U.S. agencies, both internal and external to the DOD.

Now and in the future the United States must effectively employ all elements of national power to ensure success in war. Economic Stability Operations, catalyzed by DOD efforts to facilitate venture capital and commercial business activities within a given Area of Operations, are the non-kinetic enablers critical to recovery and reconstruction in the post-conflict environment. The United States Military and Interagency partners must work together to leverage all means necessary to ensure that the conquered and occupied nation becomes a valued ally and a responsible member of the global economic community.

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